

# Potential Analysis of International Development for Chinese Sportswear Companies

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## ABSTRACT

This paper aims to evaluate the possibility of any Chinese sportswear brand that could become the international competitive company in the sportswear industry. This study explores the potential development of Chinese sportswear from aspects such as financial situation, supply chain, product range and prices, and brand internationalization. Listed the advantages and improvements that ANTA and Li-Ning could have adopted to become a trend and game-changer in the international market. It also illustrates the changes in brand positioning of ANTA, from the low-end and mid-end markets to entering high-end markets by acquisitions. The results indicate a high level of supply chain control is needed for any sudden outbreak of incidents, especially after the disruption caused by COVID-19. This paper also reveals customer preferences in the sportswear industry, which focuses on innovations in products and brand positioning in the market. In order to achieve further growth, brands could obtain brand awareness internationally through acquisition and benefits from its synergy effect.

**Keywords:** *COVID-19, Supply Chain, Brand Internationalisation, Acquisition, Synergy effect*

## 1. INTRODUCTION

According to data from World Bank, the GDP per capita in China for the past decade has increased approximately 130%, from USD 4550 to USD 10500 [1]. With the increase of GDP per capita in China, the consumption level has been augmented as well. Data from National Bureau of Statistics of China, CNY 15000 CNY to CNY 37500 [2]. Besides, a range of marketing gimmicks such as ‘Double-Eleven’, which was held by Alibaba Group, had reached USD 74 billion in gross merchandise volume [3]. With the rapid growth of China’s living standards and economy, Chinese brands are getting more and more mainstream and receiving attention gradually.

Due to the outbreak of COVID-19, the Sportswear industry has entered ice-aged. Global giants Nike & Adidas, especially for Adidas, have struggled to maintain their profitability and regular operations due to COVID-19 policies such as lockdown, curfew, and travel restrictions. The sudden change of consumption patterns due to pandemics has forced brands to switch marketing and distribution channels. Meanwhile, the Chinese sportswear brand, ANTA, benefits from fast economic

recovery and has reduced the gaps between international sportswear brands.

Since the rapid increase of brand awareness for the Chinese sportswear brand, there are more and more journals analyzing the success behind these brands.

Rygl et al. addressed the advantages of the acquisition of Reebok by Adidas. It analyzed through Adidas’s internal structures including Global PR, Social and Environmental Affairs, and Treasury and Sales. It also explained how Adidas benefits from the acquisition in a market-domination aspect, resulting in Adidas as the number 2 leader in the U.S sportswear market [4].

Shih illustrated ANTA’s key success strategies in different phases through profit-oriented planning and innovation. Shih also analyzed ANTA’s theoretical business model on customer value proposition, which helps ANTA to increase its price value and market positioning. From creating value recognition in the local market to multi-branding and brand acquisition for expansion [5]. Shao and Yao has researched ANTA’s brand internationalization strategy. The strategy implementations focused on the products and advertising strategies and how these strategies have successfully contributed to the ANTA’s profit [6].

Biswas and Chakraborty highlighted the disruption of COVID-19 on the global textile, apparel, and fashion manufacturing supply chain. The research has used the case study of Adidas to identify the increase in manufacturing cost in Bangladesh and projected the trend on the low consumption in next coming years. It also analyzed business and academic journals, manufacturer’s statements, and reports, then recommend a mathematical model to tackle the sudden similar outbreak in the future [7]. Meng et al. have analyzed Nike Inc.’s short-term negative impacts on its profitability ratio and finance performances caused by COVID-19. It conducted the SWOT analysis on its cost and current advantages on its marketing campaign. Quantitative and qualitative research is adopted as a reference to help eliminate the negative impacts for enterprises in the future[8]. Putri has discovered a significant change in consumer consumption and consumer shopping attitudes. Putri has adopted survey data from McKinsey and explored the consumers’ behavior and attitudes in Indonesia. The book investigated the increase in online shopping through smartphones and websites under the COVID-19 pandemic and pointed out the channel interactions between customers and brand is a value able point to stimulate consumption [9].

The objective of this paper is to analyze the current situation of sportswear brands including market leader NIKE Inc., Adidas, and ANTA. It includes analyzing the different sportswear brand status under COVID-19 and how their decision in business affect their brand values and profitability. Several aspects are being discussed in this paper, such as financial performance, supply chain management, marketing strategy, distribution channel, innovations, and brand internationalization.

## 2. THE RISE OF CHINESE BRANDS

### 2.1 Comparison on finance performances

To analyze a company’s potential growth, it is important to examine the financial statements and compare horizontally across the industry. Nike and Adidas are the giants in the sportswear industry for decades. Their total operating income is relatively high compared to other sports brands. As shown in Figure 1, both Nike and Adidas’s gross profit ratio had reached the lowest in 2020. The average gross profit ratios of Nike and Adidas are 44.6% and 46.1%. While Chinese brands ANTA and Li-Ning are ranked in the upper tier with an average of 54.45% and 49.33%, which indicates better financial health and having higher financial support for its expansion and development.

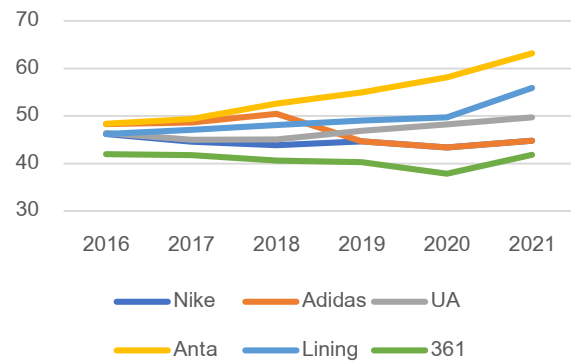


Figure 1 Gross profit ratios from 2006 to 2021.

It is also crucial to compare the ratios of net profitability to assess how much did products earn in terms of the cost that includes distribution and production. ANTA is the most profitable with an average ratio of 17.31%. In 2020, after the burst of the pandemic, almost all companies suffered from the deduction on its profitability, especially Under Armor has dropped to -12.27%. However, Nike, ANTA, Li-Ning, and 361° have the strong performance in 2021, while Adidas appears to diminish on its percentage on net profitability ratio severely with only 2.23%. The pandemic has crushed the sportswear industry hardly worldwide. However, the Chinese brands are very responsive to the COVID-19 breakout. The three Chinese brands, ANTA, Li-Ning, and 361°, have a much higher profitability ratio than as previous years after 2019.

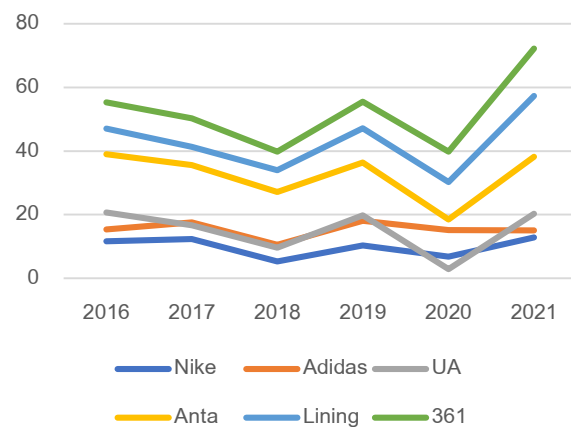


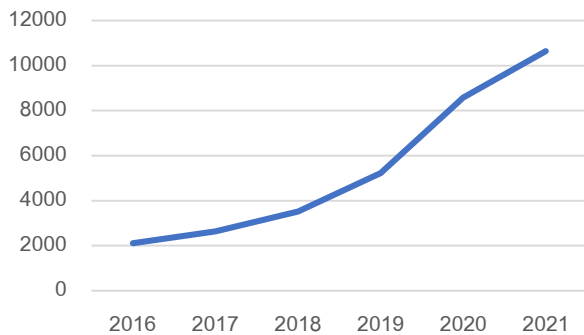
Figure 2 Net profit ratios from 2006 to 2021.

### 2.2 The impact of the COVID-19 on brands

A steep decline in revenue resulted from sportswear brands being forced to adjust their selling strategies on the distribution channel [8]. Both Nike and Adidas have switched their focus to e-commerce. Nike has a significant boost in e-commerce net: the net sales was 303% higher than five years ago [10]. The situation of COVID-19 has accelerated online purchasing, forcing

companies to adopt new consumption behavior [8]. At the same time, Nike announced to quit the traditional retail methods with wholesalers, having their marketing strategies focus on e-commerce and technologies instead. Besides, Nike has also rolled out a series of online activities in response to lockdown in different countries such as ‘At-Home Workout Service Subscription Service’ for its streaming club and the “You Can’t Stop Us” campaign to encourage indoor workout [11]. The adaptation of new consuming behavior for Nike was a big success which raised a high level of engagement and driven online sales.

Chinese brands ANTA, Li-Ning, and 361° have also adopted a similar strategy as Nike, putting “Direct to Consumer” strategy to accommodate consumers needs under COVID-19 difficulties. They have expanded e-commerce channels on online shopping platforms and advertised the concept of “Home Workout” on major social media in China like TikTok and Weibo. The approaches did not have significant difference, but Chinese sportswear brands use live streaming and focus on the improvements on logistic management with online platforms. ANTA’s e-commerce net sales were almost twice its net sales in 2019, with USD 5.8 million. ANTA has also taken a step forward with forming a contingency department on its supply chain management, using the data collected from e-commerce to tailor its sales strategies.



**Figure 3** E-Commerce net sales (million USD) of Nike official online shop from 2016 to 2021.

Although Adidas is improving on its e-commerce sales as Nike and Chinese brands do, it offers discount strategies to boost sales. From 2018 to 2020, Adidas has slightly decreased in their concept stores and increased in their factory outlets. It even opened its employee stores to the public with a 50% off discount in Portland. Other discounts mainly offered in their official shop, from USD 1.42 billion in 2019 to USD 2.25 billion in 2020, resulted in 59% growth in net sales of e-commerce. However, the problem of offering the discount product is dwindling the total sales by 14% and slashing its branding position [12]. This could be the reason why Adidas’s ratio of net profitability has gone weak.

### 2.3 The impact on supply chain

The quick spread of COVID-19 has disrupted the supply chain in all industries. Pouchen and Feng Tay are the two biggest manufacturers for Nike and Adidas in Vietnam. A large proportion of manufactured goods were produced which made up to 1/6 of Nike’s annual sales [13]. Due to the pandemic, both Nike and Adidas are facing serious problems of their supply chains, factories closure, workers low vaccination rate, and raw material shortage, which affected heavily on their sales and growth[7].

Supply chain management has always been crucial for any sportswear company even before the outbreak of COVID-19. To ensure quality and establish an effective management in supply chain system, 97% of ANTA’s suppliers are located in China [14]. During the period of the pandemic, ANTA reacted quickly by rolling out the “Direct to Customers” strategy. The strategy combined its distribution channels with supply management, alleviating stock pressure and adding flexibility by using accurate data, allowing shops and logistic centers to react quickly together. ANTA has also cooperated closely with its primary and secondary suppliers.

ANTA’s supply chain team managed to adjust the order allocation flexibly and rearrange self-produced and outsourced production by its needs, aiming to reduce the impact on product supply brought by COVID-19. Actions on preparing on Standard Operating Procedure (SOP) for safe return to work, pre-recorded guidance video for Quality Assurance (QA) department, provide a good foundation for remote guidance to the factory for smooth production.

## 3. EXISTED DIFFICULTIES

### 3.1 The lack of product range

Both Nike and Adidas have around over 10 shoe categories for different sports specialism, such as golf, tennis, and cardio training. Especially Nike provides products that supply the niche markets such as cross country shoes, track and field, and even for walking. Not just for trainers, Nike and Adidas have covered technology accessories and professional sports gear as well. Like an Apple Watch belt, golf gloves, and shin guards for soccer. In comparison, the Chinese sportswear brand has fewer categories. ANTA, Li-Ning, and 361° have rather common sports in China such as basketball, running, table tennis, and running.

ANTA has lacked professional categories itself, however, it has adopted a multi-branding strategy and acquired Japanese brand DESCENTE and high-end positioned KOLON Sports in these few years. DESCENTE is a high-end sportswear brand that specialized in ski sports gear and KOLON sport

specialized in climbing sports. To promote the improved diversity in products, ANTA has sponsored China Winter Olympics 2020.

### **3.2 Brand positioning**

Nike started a collaboration, Air Jordan, with famous basketball player Michael Jordan in 1985. In 2015, Adidas and American fashion icon and rapper Kanye West had rolled out their collaboration brand, Yeezy. Both brands have created massive revenue for their parent brand. The Jordan brand had generated USD 3.1 billion sales in 2019, which was around 8% of Nike's general sales [15]. Brand Yeezy has generated USD 1.3 billion in 2019 and remained resilient during the pandemic, growing 31 % more in revenue, reported by Bloomberg [16]. The average sales price for Air Jordan is around USD 190 and Yeezy for USD 250. It is obvious to see the powder and effect and of celebrity endorsement in sportswear brands.

Celebrity endorsement not just brings gain in sales, but also created attention and distinct brand positioning, and added value to the products. Having icons to represent Nike and Adidas, the brand's cultural meaning was being transferred to consumers. For example, Michael Jordan has successfully brought the image of 'professionalism' on Nike's basketball products and Kanye West has made the brand Yeezy to be a fashion trend, polishing Adidas to be a fashionable athletic brand.

ANTA has also adopted a similar strategy like Nike, signing with an NBA star Klay Thompson in 2014, launched the KT FIRE collections. With no doubt, signing Klay Thompson has elevated and solidified ANTA's positioning as one of the top sportswear brands in the world. However, ANTA has adopted a completely different pricing strategy than Nike and Adidas. The average selling price of KT FIRE collections is RMB 399, around USD 61. Although the price is less than half of the Nike and Adidas basketball trainers, the sales of basketball star shoes still ranked the top in the market segment [17]. The act of having Klay Thompson has boosted the transformation for ANTA from a low positioning brand to a premium sports brand.

## **4. STRATEGIES TO IMPROVE BRAND POSITIONING**

### **4.1 Research and development**

Adidas had spent 130 million Euros on its research and development worldwide in 2020. The highest expenditure was in 2017 with 187 million Euros. The new technology collection, Ultra Boost, was complimented as the best innovations and quickly swept the U.S Market. The Ultra Boost collection was invented by Adidas and the largest chemical company BASF. Despite the advanced structure of the material TPU, the

trendy and hi-tech style of design is another reason it had gone viral. In the same year, the sales revenue of Adidas has increased by 31% in its Q1.

Although the R&D expenditure for Nike does not reveal to the public, it implements an R&D strategy to differentiate itself from competitors. The air-cushioning system in 1978 helped Nike to solidify the market in terms of its performances and became the most adored brand by famous athletes. Even in 2014, Nike had created a lab that invited athletes to provide their insights through detailed analysis by advanced technologies for a monitor. The research team also integrated biomechanics study and applied data collected from Motion Capture Lab to improve athletes' performance by its products. These strategies' anticipated the needs of the consumer and became product orientated.

In comparison, ANTA has announced a 5 years plan to improve on its R&D to increase the proportion of high-end products. Four billion Yuan will be invested to ameliorate its designs and core technologies. At the moment, ANTA has so far spent 616 million Yuan and filed 1,400 patents in sports technology [18]. However, compared to the two international giants, the R&D might not be enough.

### **4.2 Brand acquisition**

Brand acquisition happens often in the sportswear industry. To obtain U.S market share, Adidas bought Reebok for 3.8 billion in 2006 and obtained about 20% of the market share in the U.S. This acquisition intended to accelerate the strategic intent in worldwide athletic sportswear markets [4]. It seemed successful at first while Reebok has generated 25% of the revenue for Adidas in the second year but declining gradually each year. However, Reebok only generated less than 7% of the total revenue of Adidas in 2020.

This acquisition was considered a failure after because the brand positioning between the two brands has a conflict in the market, which results in Adidas and Reebok sharing the existed market share. Then Reebok tried to re-positioned as a fitness sportswear brand, focusing on the women market, targeting yoga, dance, and aerobics. The strategy was successful, however, because of the pandemic, facilities were shut down impacting the sales went down as well. In 2021, Reebok was sold to ABG for 25 billion USD. ANTA was one of the potential buyers too.

ANTA embraces an internationalization strategy through global acquisition. Just like Adidas, the objective of the multiple acquisitions was to obtain market share quickly. [5] Except for DESCENTE and KOLON that mentioned earlier, the acquisition of FILA was one of the successful cases. In 2006, ANTA bought FILA from BeLLe. The decision was made based on two reasons: approaching tier-one consumers by leveraging brand

image and penetrating the international market [6]. ANTA has quickly diversified FILA into three lines, FILA, FILA Kids, and FILA Fusion, and differentiated from ANTA completely. FILA's gross profit margin is 20% higher than ANTA, reaching 70% [18]. Therefore, FILA has made up to around a quarter of the revenue of ANTA, which was about 20 billion.

The synergy effect took place in acquisitions which benefits ANTA enormously. ANTA has divided its affiliates into three categories for management effectiveness: professional sports, fashion sports, and outdoor sports. The market positioning is clear for each brand as well: DESCENTE and FILA serve the High-end tier and ANTA serve the medium tier. Although each department has its dedicated teams, the resources of distribution network, innovations, productions, and sourcing are shared between brands. It utilized the greatest capacity resources and achieved its best in obtaining market share and profitability. For example, the acquisition of Amer Sports has helped the brand increase by approximately 20% in 'Direct to Customers' and 10% on its market share in China.

## 5. CONCLUSION

This paper analyse in aspects includes financial performances on gross profit ratio and net profit ratio in recent six years, the financial performance after the outbreak of COVID-19. The strategies being used in supply chain management during the COVID-19, the varieties in a range of products, market positioning, innovations, acquisition and synergy effects, to assess the potentiality of ANTA becoming an international brand.

One of the reasons that ANTA has become the third-largest sportswear brand is due to the supply chain system that ANTA build. Most of the manufacturers of ANTA are located in China for easy management purposes, therefore ANTA has a higher control on its supply among its manufacturers. Because of the fast recovery of China manufacturing, ANTA managed to combine its existing online sales strategy with the COVID-19 contingency plan to achieve profit growth. Meanwhile, Nike and Adidas manufacturers are mostly located in Vietnam where factories have been completely shut down because of the COVID-19 restrictions. The lack of supply has impacted the regular operations of NIKE and Adidas, resulting in a decline in profits in 2020.

Another point that ANTA has been successful is the frequent act of acquisition of international brands such as FILA, Amer Sport, DESCENTE, and KOLON. Repositioning a brand could be costly and time-consuming, more importantly, might not be effective to existing market customers. Instead, quick acquisitions could repackage a brand and obtain market share swiftly. The acquisition allows brands to serve different market segments and face a wider audience than a single brand

does. ANTA also benefits from the synergy effect from acquisitions, including sharing existing channels, sourcing, and even market information. It extracts costs, achieved growth, and strengthened competence.

Although ANTA has received huge success on its subsidiary brands, FILA and Amer Sports, the consumer market still fails to recognize ANTA as their parent company. For example, people discerned Yeezy as an individual brand but the market also recognized it is under Adidas. This could be an advantage to distinct brand positionings, however, enlarged the gap between brands and ANTA. The gap here implies, not only but also, profitability, brand image, the resources that could be shared. ANTA faces a challenge in enhancing the linkage between brands to maximize its synergy effects. ANTA could make use of social media to escalate connections and improve brand internationalization.

Therefore, ANTA should continue with acquisition strategies and take a step further on building relationships between the parent brand and subsidiary brands to enhance international competitiveness.

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